

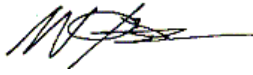
Michael V. O'Brien
City Manager



CITY OF WORCESTER

MEMORANDUM

TO: Worcester City Council

FROM: City Manager Michael V. O'Brien 

DATE: December 4, 2009

RE: City Awards \$2.3 million of Neighborhood Stabilization Program Funding

The following information relative to the Neighborhood Stabilization Program is forwarded for the information of your Honorable Body.

For the past two years, my Administration has aggressively worked to address the impacts of predatory lending practices that resulted in an increased number of mortgage delinquencies, foreclosures and vacant properties. Through the coordinated efforts of the inter-departmental Property Review Team, we have made great strides with fewer resources to monitor, track, enforce and hold absentee owners accountable. Our efforts to stabilize neighborhoods affected by this national housing crisis were fast-tracked in July with the welcome receipt of \$4.8 million in Federal and State funding to re-develop many of these foreclosed and vacant properties.

In partnership with the Commonwealth, my Administration drafted an 18-month plan to target all available resources in focused areas and assist both buyers and developers in the purchase and rehabilitation of these foreclosed/vacant properties, to stimulate private market investment, and to improve the overall aesthetics of impacted neighborhoods on a block-by-block basis. As you know, my administration is targeting funds to the Main Street / Chandler Street / Pleasant Street neighborhoods.

Over the last few months, we have spent a considerable amount of time reaching out to owners, lenders and listing agents within these areas to encourage participation in our revitalization efforts. Armed with data from the Warren Group, our internal Property Analysis System, and feet-on-the-street inspectors, clusters of properties within the three key areas were identified. A one-stop, streamlined application process was put into place to make the process easy for interested parties and to determine eligibility.

After a series of property inspections, balancing private equity funds with public investment, and timely review by multiple departments, I am pleased to announce that we have allocated \$2.29 million dollars in public funds to a mix of homeowners, developers and community development corporations for the rehabilitation of approximately 14 projects, inclusive of 4 single-family



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homes, 1 two-family, 6 three-deckers, and 3 multi-unit projects. Of the 14 projects, 10 are in the targeted area. These 10 projects are located in clusters at the following locations: Austin/Piedmont Streets; LaGrange Streets; Wyman/Grand Streets; and May/Main Streets. A map of the targeted area is attached for your information. The remaining four projects were selected because they posed a critical threat to otherwise stable neighborhoods.

In all circumstances, the owner or developer has invested in the property through acquisition (no Federal dollars). Public funds will allow for the rehabilitation of interior and exterior work to make the home livable. Other criteria taken into consideration includes total project cost, cost per unit, location and proximity to other investments, private equity and financing, re-use and redevelopment plans, and timeframes. The attached map also includes color-coding of the clusters and private/public investment.

This first stage of transformation of our most distressed neighborhoods requires a transparent process and streamlined coordination of all available resources (*to include CDBG for Housing Rehabilitation, NRSA, HOME, Lead Hazard Abatement Grants, and more*) to ensure a maximum return on our investment. Of the 14 selected projects, 6 will be augmented by additional funding for Lead Paint Abatement and 4 will receive funding for energy efficiency upgrades.

As you know, all Stimulus funds are subject to stringent timelines dictated by HUD and will be lost if not committed by September 2010. A rolling application process has allowed us to create a pipeline of projects. Attached is a copy of the one-stop application. We continue to accept and encourage applications and outreach continues to take place to determine the most strategic investments. To date, we have received 113 inquiries and our pipeline includes 4 housing projects, equating to 20 units of housing and 2 storefronts.

Pending requests are making their way through the internal review process and in some cases, are under State review, for matching funds. Based on ongoing discussions, we anticipate an additional \$4.1 M in matching funds for several of those projects from the Department of Community and Housing Development through the Massachusetts Housing Investment Corporation (MHIC).

A complete list of properties that will participate in the Neighborhood Stabilization Program is attached to this report. All recipients have been personally notified.

Demolition

Additionally, a portion of the Federal funding (approximately \$400,000) has been set aside to demolish vacant structures that continue to pose a public safety hazards and are an impediment to private market investment. Through the coordinated efforts of the Property Review Team, we have identified six properties with demolition orders. These demolitions will be balanced with neighborhood stabilization efforts within the areas of South Worcester, Lower Lincoln, Grafton Hill and Main South. Environmental assessments will be completed within 30 days, and work will be bid to a contractor to complete in the coming months.

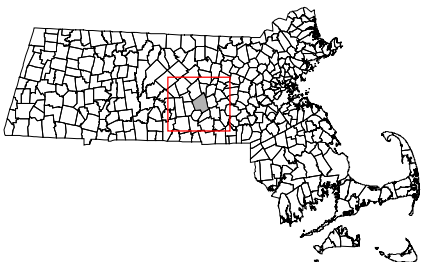
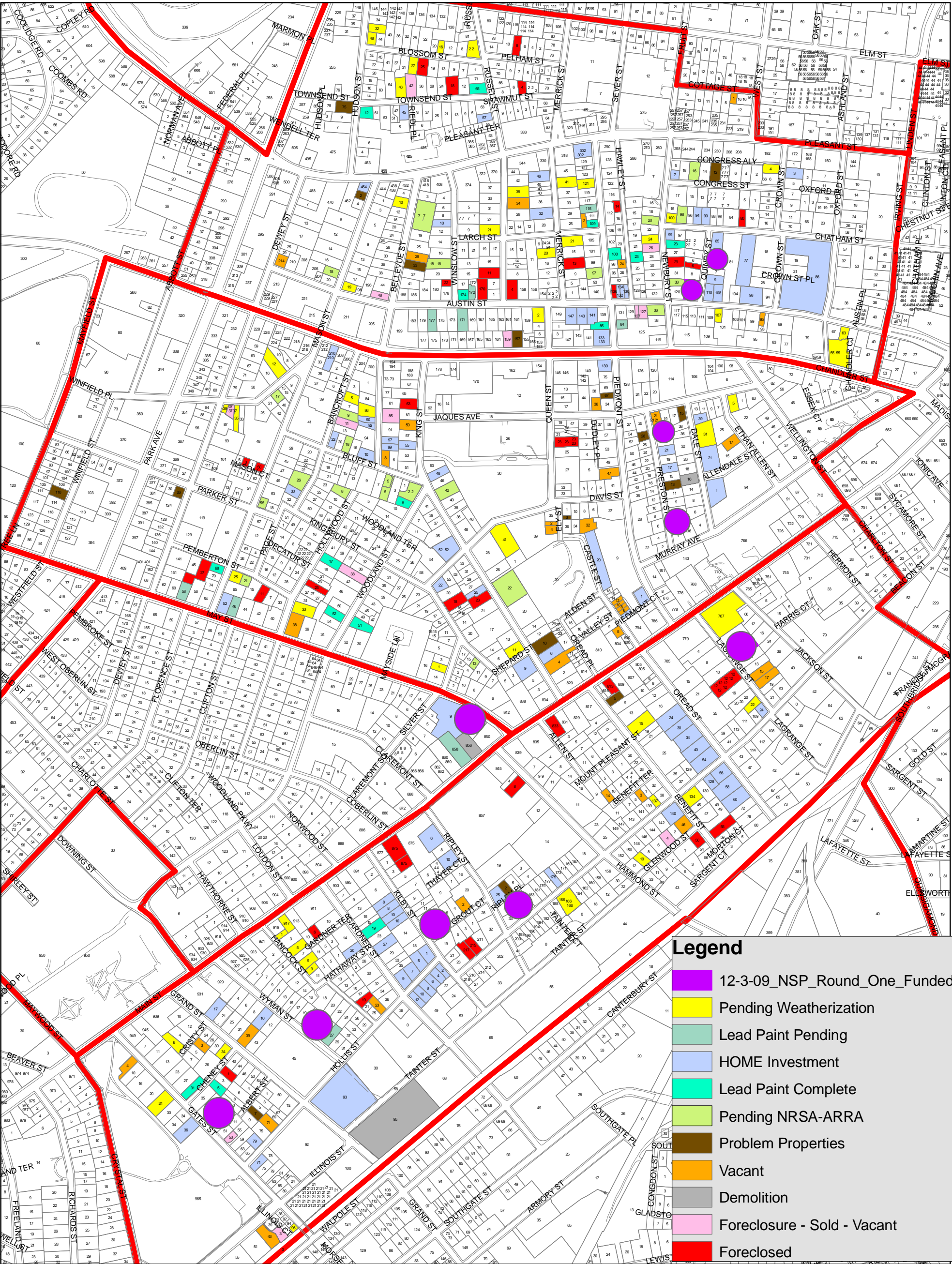
Most recently, a chronic problem property directly across from the renovated apartments located at 9 May Street and diagonally across from 5 May Street (listed above) was demolished (856 Main Street). Staff is currently in discussions with a number of developers for this site.

Transformation of these distressed neighborhoods requires a holistic approach to include storefront improvements, parks improvements, streetscape investments, and more. We have been and continue to personally reach out to commercial property owners adjacent to a number of properties listed above and throughout the census tract. I expect additional commercial projects

will be announced in the coming weeks, and that these projects will make a noticeable and tangible difference. I will continue to keep you apprised of our progress.

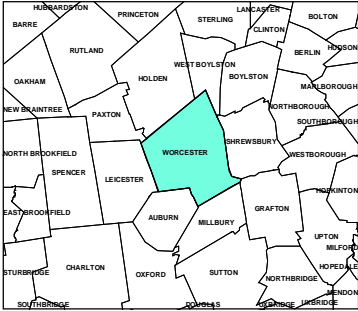
I wish to express my gratitude to Congressman Jim McGovern and to the Patrick-Murray Administration for their assistance in securing and targeting this funding for Worcester.

Neighborhood Stabilization Initiative



Produced by
City of Worcester
Geographic Information System
Executive Office of Neighborhoods and Housing Development

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City of Worcester Neighborhood Stabilization Program – Funded Projects
as of December 4, 2009

Property	NSP	Lead	Energy	Developer or Homeowner	Owner-Occupied	Estimated Completion Date
67 Southgate Street	\$60,000			Jim Gasek		June 2010
5 Quincy Street	\$90,000	\$20,000	\$5,000	Melvin Rodriguez	X	June 2010
15 Kilby Street	\$180,000			Main South CDC		October 2010
189 Beacon Street	\$60,000			Main South CDC		Spring 2010
25 Preston Street	\$180,000			Thanh Nusong Du & Dang Vu	X	Spring 2010
5 Preston Street	\$125,000	\$10,000	\$5,000	Minh Nguyen	X	June 2010
23 Wyman Street	\$180,000	\$30,000		Tony Nguyen		Spring 2010
114 Austin Street	\$320,000	\$40,000	\$10,000	Hany Ahmed	X	December 2010
9 LaGrange Street	\$120,000			Lonn Beaudin		October 2010
5 May Street	\$400,000	\$30,000		James Levin		October 2010
58 Ames Street	\$80,000	\$20,000	\$10,000	Oak Hill CDC		October 2010
Southgate Place	\$300,000			South Worcester Neighborhood Investment Corp.		Spring 2010
43 Gates Street	\$77,000			Hui Song	X	October 2010
65 Providence Street	\$125,000			Oak Hill CDC		June 2010

NEIGHBORHOOD STABILIZATION PROGRAM FACT SHEET AND DISCLOSURE

The City of Worcester's Neighborhood Stabilization Program, or NSP, is a housing program intended to promote the responsible redevelopment of foreclosed upon and vacant properties. The funding from this program will be used for subsidizing the rehabilitation of qualifying properties in the City's program-targeted areas. Perhaps most pertinent to know, an applicant must apply for and receive a soft-commitment of rehab-funds and the subject property must have a HUD Tier 2 Statutory Check List Environmental Review, before title transfer in a foreclosure purchase ultimately occurs, to be considered eligible for NSP subsidy. It is highly recommended that any and all prospects apply to the program in anticipation of purchasing a property to determine eligibility.

An applicant must first demonstrate that they have the capacity to independently secure and show evidence of property purchase financing. In addition they must provide personal and/or organizational information and information regarding all other properties owned in the city. All properties owned by applicant must be current in water, sewer and tax revenue payments with no outstanding violations from inspection services and the fair housing commission. Applicants must be able to demonstrate their capacity to redevelop a property and/or successfully retain and operate the property as a part of their portfolio.

In addition to applicant qualifications, the subject property itself must meet the threshold requirements for program eligibility. The proposed property for rehabilitation must meet the following:

- Property must be bank-owned, by the Secretary of HUD or vacant.
- Property must be located in an eligible census tract and within a targeted neighborhood.
- Property must be compliant with the requirements of a HUD Tier 2 Environmental Review, Statutory Check List.
- Property must pass the threshold of rehabilitation need as determined by initial inspection by staff expert.

Upon determining eligibility of the applicant and subject property, the applicant will receive a soft commitment. Once an applicant is able to secure their interest in purchasing the property through the successful negotiation of an offer to purchase, and later a signed purchase and sale agreement, the property will receive a full inspection by the Worcester NSP Staff Rehab-Specialist. This report will include but not be limited to:

- Full scope of work as proscribed by staff rehab specialist
- Hazardous material reports, including but not limited to lead based paint and asbestos, and requirements for abatement
- All code violations that will be required to be corrected

The NSP staff will determine the minimum scope of work, create a specification check list and approve the ultimate budgeting of rehab. The applicant will demonstrate, or obtain estimates of construction costs through one of the following:

- If the applicant is the general contractor, show construction costs through a demonstration of costs from similar past-projects.
- Obtain three written estimates from general contractors via a formalized sealed bidding process.

The NSP will oversee the final bid selection process that will include, but not limited to the following:

- Review of Specifications
- Final Estimates
- Bid Summaries
- Specification Authorization
- Final Estimates
- Bid Selection

Once this process is complete, the rehabilitation project will begin with the execution of a grant agreement that is complete with terms mandatory for contractors, authorization and a commitment of funds.

In receiving NSP Rehab-funding, the applicant is committing the subject property to an affordability term that will limit the eligibility of residence based upon the annual income of any occupant and or tenant. The length of this term will be determined in direct proportion to the amount of funding received and begins upon project completion. The table below illustrates this rate.

Funded Activity	Minimum period of affordability in years
Rehabilitation or acquisition of existing housing per unit amount of NSP funds: Under \$15,000	5
\$15,000 to \$40,000	10
Over \$40,000 or rehabilitation involving refinancing	15
New Construction or acquisition of newly constructed housing	20
Homeownership assistance NSP amount per-unit	Minimum period of affordability in years
Under \$15,000	5
\$15,000 to \$40,000	10
Over \$40,000	15

This affordability requirement will be recorded on the deed and run with the land for the entire period. Moreover, this requirement will apply without regard to the term of any loan or mortgage or the transfer of ownership during the period. Since only a subsequent foreclosure nullifies the affordability deed restriction, cross-collateralization the subject property with other real property assets is expressly prohibited.

The income eligibility for tenants and occupants will be limited to those earning up to 120% of the Area Median Income. However, it must be noted that HUD requires that no less than 25% of Worcester City's entire grant award be used for creating affordable housing opportunities for those earning up to 50% of the AMI. Income limits are illustrated by the following tables. The City will determine, as a condition of funding and at its discretion, which properties or individual units within a property will be designated as income restricted to occupants and tenants making no more than 50% of the

are median income. These illustrated income limits are subject to periodic change by HUD.

<u>FY 2009 Income Limits for 50% of HUD Area Median Income</u>							
<u>1 person household</u>	<u>2 person household</u>	<u>3 person household</u>	<u>4 person household</u>	<u>5 person household</u>	<u>6 person household</u>	<u>7 person household</u>	<u>8 person household</u>
\$27,900.00	\$31,900.00	\$35,850.00	\$39,850.00	\$43,050.00	\$46,250.00	\$49,400.00	\$52,600.00

FY 2009 Income Limits for 120% of HUD Area Median Income

<u>1 person household</u>	<u>2 person household</u>	<u>3 person household</u>	<u>4 person household</u>	<u>5 person household</u>	<u>6 person household</u>	<u>7 person household</u>	<u>8 person household</u>
\$66,950.00	\$76,500.00	\$86,100.00	\$95,650.00	\$103,300.00	\$110,950.00	\$118,600.00	\$126,250.00

The rehab-Funding will be in the form of a forgivable loan without interest. If the applicant sells or refinances during the affordability period, a prorated amount of the loan will be recoverable at the closing. For example, rehab-funding that requires a five-year affordability period would be repaid in fifths; if the property-owner sells within the second year of a five year affordability term, he or she would repay three/fifths of the total loan. However, if the applicant retains ownership through the full affordability period, the loan will be forgiven entirely.

Along with the income eligibility requirement for occupants, an affordability period implemented by a limit to the maximum allowable rent for income properties will run concurrently with the income-restriction period. The maximum allowable rents, less an allowance for tenant-paid utilities, will not exceed the lesser of (a) "High HOME Rent", thirty percent (30%) of the monthly income of a household earning sixty-five percent (65%) of area median income adjusted for the number of bedrooms in the unit, or (b) the HUD Fair Market Rent.

March 2009 HOME PROGRAM RENTS (utilities included)							
	Efficiency	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom	Five-Bedroom	Six-Bedroom
Low HOME Rent Limit 20%	\$656.00	\$747.00	\$896.00	\$1,036.00	\$1,156.00	\$1,275.00	\$1,394.00

High HOME Rent Limit: 80%	\$656.00	\$756.00	\$922.00	\$1,100.00	\$1,167.00	\$1,345.00	\$1,517.00
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Final FY 2009 Fair Market Rents By Unit Bedrooms					
	Efficiency	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom
Final FY 2009 FMR	\$656.00	\$756.00	\$922.00	\$1,100.00	\$1,167.00

**Fair Market Rents will be adjusted for Allowances for Tenant-Furnished Utilities and Other Services these amounts are subject to change. Please contact this office to obtain them most current information. Please note that rental amounts will be lower if tenants pay their own utilities*

www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/incomes/2008/massachusetts.pdf

THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF THIS DISCLOSURE AND HAS BEEN ADVISED TO SEEK ANY NEEDED EXPLANATION OF THIS DOCUMENT FROM THE NSP STAFF AND/OR A QUALIFIED SOURCE.

Applicant _____ Date _____

Applicant _____ Date _____

Applicant _____ Date _____

Applicant _____ Date _____